



Foreign Agricultural Service

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## **Russian Federation**

### **Market Development Reports**

#### **Increases in the Value Added Tax**

**1999**

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#### **Report Highlights:**

**Russia announced an increase in the VAT on meat, seafood, eggs and some other products from 10 to 20 percent effective July 1, 1999 which could further reduce consumption of these items while hurting producers and imports. Most critically, the VAT will increase on grain for milling, which will push up bread prices, a critical staple in the Russian diet.**

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Includes PSD changes: No  
Includes Trade Matrix: No  
Unscheduled Report  
Moscow [RS1], RS

## **Russia extends lower VAT rates on some products, but will raise it on others**

On May 27, Russia extended to June 30, 1999 a reduced 10 percent Value Added Tax (VAT) rate for food products covered under an October 1998 temporary VAT decrease (see GAIN report RS8071). The normal VAT is 20 percent. The Resolution also lists those products that will be eligible for a 10 percent VAT indefinitely after July 1, 1999. However, this newest resolution excludes several important kinds of food from the 10 percent rate including: grain for milling, meat and meat products (including poultry and poultry products); eggs and egg products; sugar; including raw sugar; fish (fresh); fish products and seafood. As a result, the VAT for these items will be 20 percent starting in July.

## **Effects of the higher VAT**

Increasing the VAT on meat, sugar and seafood is likely to further depress demand for these products, where consumption has been falling since the early 1990's. Since the August 1998 economic crisis, demand has further weakened, forcing producers to cut prices of sugar and eggs from February to April to prop up sales, hurting producers. Most critically, the VAT will increase on grain for milling, which will push up bread prices, a critical staple in the Russian diet. For meat and fish products, inflation, the sharp fall in imports, and the production capacity constraints of Russian producers have driven up retail prices since September 1998. Since food accounts for a large part of most Russian household spending, a 20 percent VAT on meat will cut consumption further and hurt poorer families disproportionately. By reducing sales of meat and other products, the VAT could potentially set back attempts by domestic producers and importers to recover. However, because U.S. exports of pork and beef are not competitive with subsidized EU products and have yet to recover from the economic crisis, the higher VAT is not expected to affect trade of these items.

## **VAT Rates for Selected Food Items**

This latest change in the VAT is the newest in a long line of VAT alterations for food items which complicates attempts to market food in Russia. Attached is a table outlining changes in the VAT in the period July 1995 through June 1999.

**Table 1. VAT Rate for Selected Food Products: July 1995 through June 1999, listed by product and implementation date of VAT rates.**

Product group	July, 1999 (1)	Oct., 1998 (2)	Aug, 1998 (3)	Dec., 1995 (4)	Aug., 1995 (5)
Livestock and poultry (live weight)	10	10	20	10	20
Meat and meat products (except delicatessen meat products like: sirloin, veal, tongue, raw smoked sausages, smoked and baked beef and pork products, canned ham, bacon, other deli canned meat products)	20 20	10 20	20 20	10 20	10 20
Milk and dairy products					
- Milk	10	10	10	10	10
- Kefir	10	10	10	10	10
- Cottage cheese	10	10	10	10	10
- Cream butter	10	10	10	10	10
- Other dairy products	10	10	10	10	20
(except ice-cream)	20	NA	20	20	20
Eggs and egg products					
- eggs	20	10	20	10	10
- egg products	20	10	20	10	20
Vegetable oil	10	10	20	10	10
Margarine	10	10	20	10	20
Sugar, including raw sugar					
- Sugar	20	10	20	10	10
- Raw sugar	20	10	20	10	20
Salt	10	10	20	10	10
Grain	20	10	20	10	NA
Feeds, feed mixtures, grain wastes	10	10	20	10	20
Oilseeds and products (meal and cake)	10	10	20	10	20
Bread	10	10	10	10	10
Bakery products (including buns, dried bakery products and ring-shaped rolls)	10	10	10	10	20

Groats	10	10	20	10	10
Flour	10	10	20	10	10
Pasta products	10	10	20	10	10
Fish (fresh)	20	10	20	10	10
Fish products and sea-food, including chilled and frozen fish, herrings, tinned fish and preserves (except 12 kinds of delicatessen fish products)	20 20	10 20	20 20	10 20	10 20
Baby food	10	10	10	10	10
Diabetic food products	10	10	10	10	20
Vegetables and vegetable products					
- Vegetables	10	10	20	10	10
- vegetable products	10	10	20	10	20
Potato and potato products					
- potato	10	10	20	10	10
- potato products	10	10	20	10	20

## Notes:

- 1) Resolution of the Government of the Russian Federation of May 27, 1999, #569, published (effective) May 29, 1999, to be implemented July 1, 1999.
- 2) Resolution of the Government of the Russian Federation of October 15, 1998, #1203, published (effective) October 22, 1998, implemented October 15, 1998.
- 3) Resolution of the Government of the Russian Federation of July 17, 1998, #787, published July, 1998, implemented August 1, 1998.
- 4) Resolution of the Government of the Russian Federation of November 13, 1995, #1120, published November 18, 1998, implemented December 1, 1998.
- 5) Resolution of the Government of the Russian Federation of July 1, 1995, #659, published July 7, 1998, implemented August 1, 1995.